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Alberta ECONOMIC OUTLOOK

JULY 1973

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ALBERTA — NATIONAL AFFAIRS

Since April 9, 1973, the Bank of Canada has increased the bank rate three times in hopes of moderating the recent bank credit expansion. Bank loans have risen at an annual rate of almost 30 per cent since the beginning of this year. Such moderation by the Bank of Canada is necessary in order to lessen inflationary pressures and increase the possibility of stable growth in the economy.

All related interest rates are expected to increase until there is a slackening in credit demand, probably sometime in 1974. Rates should then return to more normal levels. According to some industry spokesmen, mortgage rates could rise to as high as 10¼ per cent by September. The 10 per cent level has long been regarded as a psychological barrier to potential consumers and it is expected that when mortgage rates climb above this level there could be a significant decrease in the demand for new residential construction.

ALBERTA — PROVINCIAL AFFAIRS

The results of a recently completed survey **Manufacturing Opportunities — Mobile Home, Industrial Accommodation and Recreational Vehicle Components** will be published jointly by Alberta Industry and Commerce and Alberta Treasury in the near future. The highlights of the survey are as follows:

- **the total value of production** in the three activities increased to $122 million in 1972, up from $79 million in 1971 — an increase of 55 per cent in one year;
- as an aggregate, **1972 production** totalled 19,800 units, a gain of 7,300 from 1971. For 1973, production is expected to increase by 45 per cent to nearly 29,000 units;
- the **production of mobile homes** has shown a dramatic increase from 4,466 units in 1971 to 7,043 units in 1972. Prospects for 1973 indicate production in excess of 10,000 units;
- **recreational vehicle construction** was relatively stable in 1971 and 1972, exhibiting normal growth rates. However, 1972 **motor home production** was double the 1971 output and is expected to double again in 1973;
- many firms reported difficulty in having orders correctly filled. Many respondents admitted that initially cheaper local supplies were either inferior in quality, or were subject to supply problems or rapid price escalation once they had transferred their dependency to them; and
- as is apparent from the survey results, there has been a substantial demand for component inputs which has been accompanied by an acute awareness of the urgency and efficiency with which these demands have had to be met. The survey indicates that **component warehousing and supply opportunities** do indeed exist in Alberta, but that the same kind of imagination and innovation that has developed the production arm must now be applied to improving the component flows.

ALBERTA — INTERNATIONAL AFFAIRS

A recent report by the **Organization For Economic Co-operation and Development** predicts the world demand for energy will increase at an average annual rate of 5.6 per cent during the 1970's, 1.7 percentage points above the previous decade. The OECD, whose member countries control approximately 70 per cent of the total world supply of energy estimates the world demand will approach some 4 billion tons by 1980 or the equivalent of 80 million barrels of oil per day. By 1980, North America may have to import nearly 35 per cent of its needs, European refinery capacity should almost double to accommodate the anticipated 50 per cent rise in per capita consumption of energy, and Japanese refinery capacity will need to be expanded by at least 2½ times to meet their expected demand. Although the main energy sources will continue to be oil, natural gas, and coal the development of alternatives such as nuclear energy will accelerate during this decade.

In Alberta, the outlook is for continued growth for the energy supply industries. Energy prices continue to rise due to the current market situation and the increasing costs of production, transportation and distribution. At present, the demand for Canadian crude oil and pentanes plus is expected to be close to 25 per cent above the first nine

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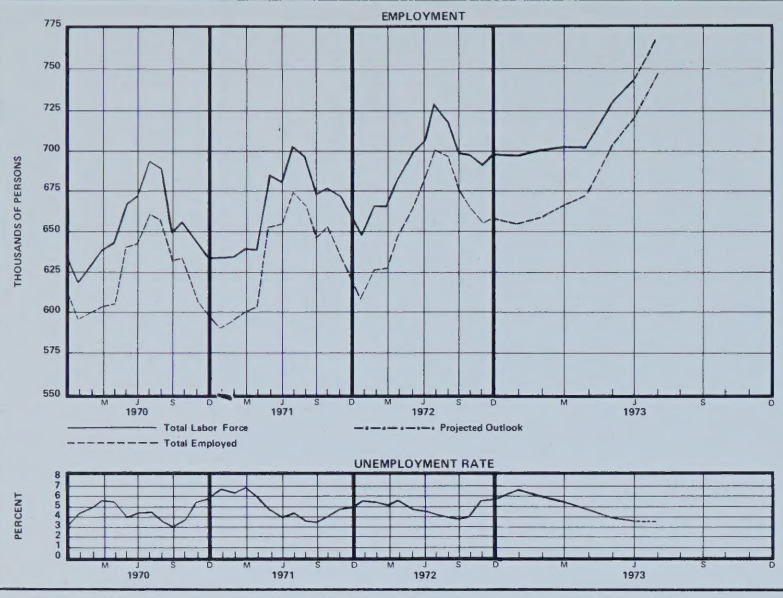
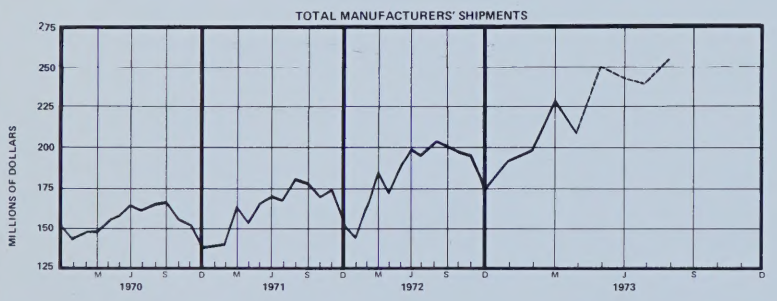


EMPLOYMENT

Alberta's labour force in June rose to 740,000, an increase of 11,000 from May, 1973. Total employed increased to 716,000, total unemployed declined to 24,000 and the unemployment rate fell to 3.2 per cent. Prospects for July indicate further expansion in both the labour force and total employed to 767,000 and 744,000, respectively, and a drop in unemployed to 23,000. Slight seasonal declines in both the labour force and total employed are expected in August following the historical peak in July.

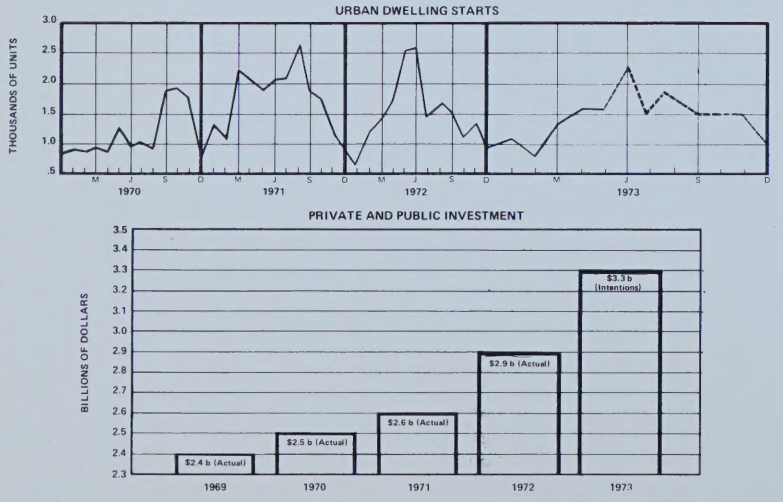
RETAIL TRADE

The strong pace of consumer spending continued in April, with retail sales reaching $242 million, 21 per cent above April, 1972. To the end of April, total trade was 12 per cent above the same period in 1972 to over $921 million. Revised forecasts for May, June and July place million and $258 million, respectively. Prospects for August indicate a seasonal decline to $254 million, followed by the usual gain in sales in September.



MANUFACTURERS' SHIPMENTS

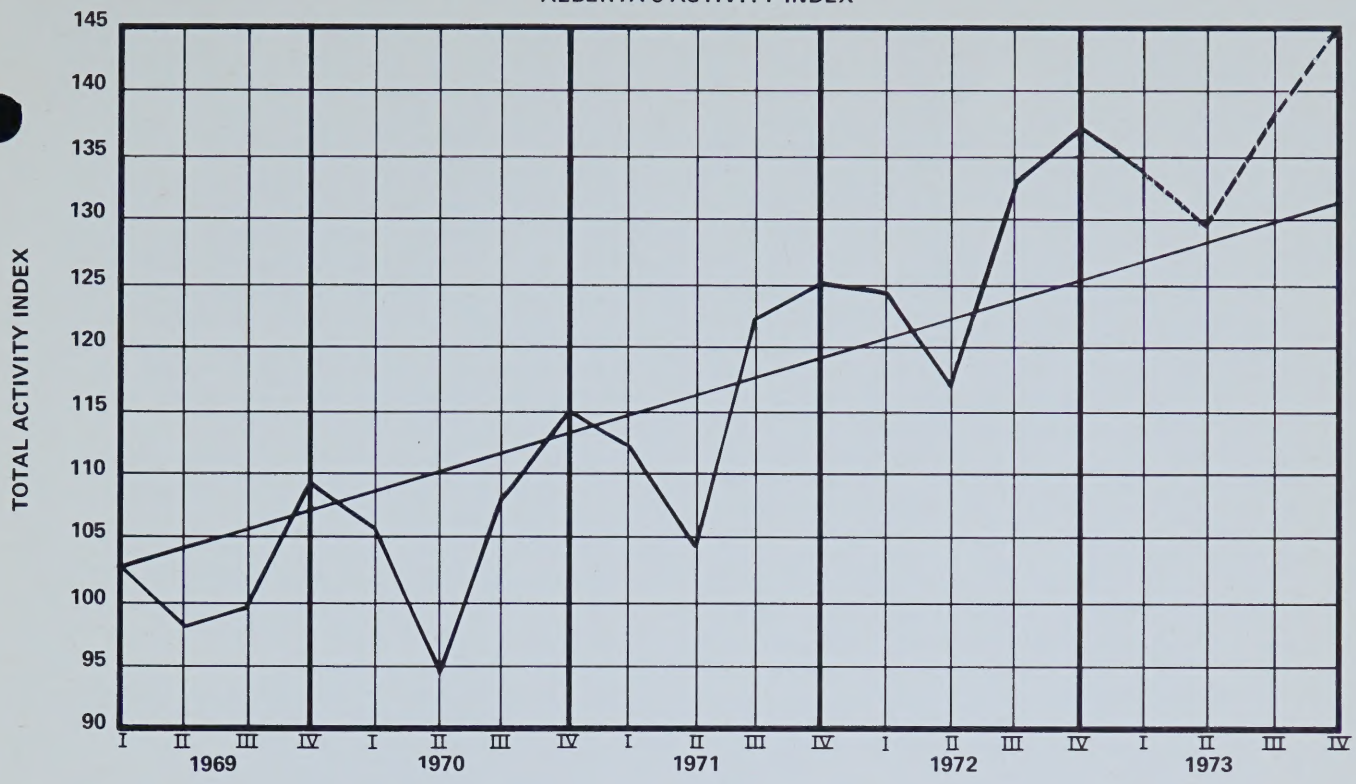
To the end of April, 1973, total manufacturers' shipments reached $826 million, a 23 per cent increase over the same period in 1972. April's total rose nearly 21 per cent over April, 1972, to $208 million. Forecasts for May, June and July have been revised upward to $232 million, $245 million and $240 million, respectively. August's total is expected to reach $256 million, a gain of nearly 24 per cent over August, 1972. September's total will reflect usual seasonal declines in that month.



HOUSING

Urban dwelling starts in May, 1973 totalled 1,582, a decrease of 37 per cent from the same month in 1972. To the end of May, total starts reached 6,390, a decrease of nearly 16 per cent from the same period in 1972. Previous forecasts for the third quarter of 1973 still appear valid at 4,700, but June's total will have to approach 2,900 to ensure that the second quarter forecast of 6,000 is reached. This is unlikely due to the significant decreases from 1972 experienced to date. Prospects for the fourth quarter of 1973 indicate a total of close to 4,000, resulting in a yearly total of close to 18,000 units.

ALBERTA'S ACTIVITY INDEX



PERTINENT ECONOMIC INDICATORS FOR THE PROVINCE OF ALBERTA

INDICATOR	Percentage Change in Volume Activity Total Year 1971 - 1970	Total Year 1972 - 1971	Year to Date 1973 - 1972
MANUFACTURING			
Slaughtered Meat Production	+13.6	+ 3.3	- 0.6 (Jan. – May)
Slaughtered Meat Exported	+12.6	+ 5.3	- 0.3 (Jan. – May)
Refinery Production (Est'd)	+10.7	+21.4	+ 5.0 (Jan. – May)
Cement Production	+ 4.5	+ 3.5	+15.2 (Jan. – May)
MINING			
Oil Production	+ 9.4	+20.8	+25.0 (Jan. – April)
Gas Production	+10.1	+16.8	+10.9 (Jan. – April)
Footage Drilled	+ 1.8	+21.9	+24.9 (Jan. – April)
Number of Wells Drilled	+ 9.6	+13.1	+41.8 (Jan. – April)
Coal Production	+31.7	+14.1	- 1.9 (Jan. – April)
CONSTRUCTION			
Urban Dwelling Starts	+54.0	- 15.4	+ 5.7 (Jan. – May)
Rigid Insulation Board Shipments to Alberta	+15.6	+ 5.9	+16.2 (Jan. – May)
Metal Shapes Shipments (Est'd)	- 4.0	+ 7.6	+35.0 (Jan. – May)
AGRICULTURE			
Grain Shipments	+ 8.8	- 2.9	- 10.3 (Jan. – May)
Livestock Marketed	+15.1	- 1.6	- 5.3 (Jan. – May)
Farm Cash Receipts	+ 9.8	+14.0	+24.6 (Jan. – May)
FORESTRY			
Lumber Production	+ 6.1	+16.0	+32.6 (Jan. – April)
Lumber Sales	+34.7	+ 5.7	+27.2 (Jan. – April)
Lumber Exports	+26.5	+24.7	+ 7.6 (Jan. – April)
Pulpwood Production	- 34.9	+47.8	+40.6 (Jan. – April)

UNEMPLOYMENT RATE (Unadjusted)	JUNE 1973	MAY 1973	JUNE 1972	MAY 1972
Canada	5.2	5.3	6.2	6.2
Alberta	3.2	3.7	4.0	4.2
CONSUMER PRICE INDEX (1961 = 100)				
Calgary – Edmonton	141.1	140.1	133.0	132.6

months of 1972 with Alberta producers expected to supply over 82 per cent of this amount. Alberta's conventional crude oil and equivalent production for 1972 totalled 503 million barrels, an increase of nearly 21 per cent from 1971. Of this amount, approximately 56 per cent was sold to the U.S., 33 per cent to the rest of Canada and the remainder consumed in Alberta. Expectations are for at least a 14 per cent increase in Alberta crude oil production in 1973.

Alberta's production of natural gas in 1972 increased by about 17 per cent over 1971. Attempts to meet contract committments, the growing concern with pollution and the rising relative costs of alternative fuels should again stimulate an increase of a similar amount in 1972. Since 1968, Alberta producers have accounted for slightly over 70 per cent of Canada's gas production and supplied an average of 75 per cent of Canadian demand. In present contracts, well head prices are approximately 16 cents/MCF (thousands of cubic feet) but new contracts are beginning to reflect increased world prices and the increased demand by averaging out at between 30 cents and 40 cents/MCF. The world energy shortage and an accelerated demand by Canadian consumers and Canadian and U.S. utility companies should result in higher prices for Alberta natural gas to nearly 80 cents/MCF by 1985.

On August 12, 1973, **Phase IV of President Nixon's Economic Program** will take effect. In announcing the return to mandatory controls similar to Phase II, Mr. Nixon announced that the 60 day freeze on all retail prices imposed on June 13, 1973 would be removed on health care and on all food except beef.

The highlights of Phase IV are as follows:

- **Price freeze on foods (except beef) and health care was removed.** The price ceiling on beef will be removed on September 12, 1973. Price increases are limited to passing on higher costs or production;
- On August 12, 1973, **controls will be removed** from utility rates, interest rates, rents, wages and prices in the lumber industry and wages and prices for firms with less than 60 workers;
- After August 12, 1973, controls will be removed, industry by industry, under rules to be issued for public comment;
- Large firms will be required to clear price increases with the U.S. government;
- **Price ceilings will be imposed** on gasoline and fuel, diesel fuel and crude oil after August 12, 1973; and
- **Wage guidelines imposed** in Phase II and Phase III will be retained at 5.5 per cent.

In addition to these measures, President Nixon announced reductions in his proposed fiscal 1974 budget. The special treatment of the food industry was designed to over come problems in supply and price of feed grains used in poultry and livestock production.

The result of this program will be higher prices in some commodities in the U.S. with increases expected in similar commodities in Canada. If the Phase IV measures prove effective, some of the price pressure influenced by the U.S. experience could be dampened in Canada.

BUSINESS OUTLOOK

The concensus of expert opinion on Canada's economic prospects for 1973 and 1974 remains one of continued optimism. Most experts predict a relatively **high growth rate for 1973, a moderate decline in the unemployment rate,** and **moderately increasing prices.** In 1974, however, the economic growth rate will slacken somewhat, but unemployment and inflation are expected to be reduced significantly. A report prepared by Mr. M. C. McCracken, President, Informetrica Limited, presents the following highlights for the rest of 1973 and 1974:

- A **real growth rate of GNP** of 6.8 per cent anticipated in 1973, accompanied by a decline in the **average unemployment rate** to 5.5 per cent;
- The leading components in this real growth will be exports of goods and services (up 10.3 per cent), non-residential construction (up 9.7 per cent) and business spending on machinery and equipment (up 9.6 per cent);
- **Consumer expenditures** in 1973 will slow down somewhat from the 12 per cent increase in 1972 to about 10 per cent;
- A slight increase in the **rate of inflation** is expected to just over 5 per cent from the 4.9 per cent level in 1972;
- **Growing business confidence** is reflected by the large increase in inventories of $1.2 billion expected in 1973;
- **Aggregate wage rates** should climb by 8.5 per cent this year. As a result, personal disposable income will increase by 10.7 per cent;
- The **outlook for 1974** is also one of relatively strong growth, although the real economic growth rate should decline slightly to near 5.5 per cent;
- Non-residential construction and business spending on machinery and equipment are again expected to be the main stimulants (up 12 per cent and 11 per cent, respectively) as businessmen move to increase capacity;
- The **real growth of exports**, however, is expected to decline to 3.4 per cent because of the anticipated slowdown in U.S. economic growth; and
- Both **unemployment and inflation** should decline to 5 per cent and 4.1 per cent, respectively, in 1974. Aggregate wage rates should climb by only 6.8 per cent, resulting in an increase of 9.1 per cent in personal disposable income in 1974.

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